

1 BILL NO. G-89-06-34 (as amended) (as amended)

2 GENERAL ORDINANCE NO. G- 18-89

3 AN ORDINANCE establishing a self-
4 insurance fund with the City of
Fort Wayne, Indiana.

5 WHEREAS, the Indiana General Assembly has recodified
6 and revised the laws pertaining to local government units;
7 and

8 WHEREAS, Indiana Code 36-1-8-6 provides that the city
9 legislative body may establish a program of self-insurance and
10 establish funds necessary to operate a self-insurance program;

11 WHEREAS, the City Controller has recommended the
12 establishment of a modified self-insurance program which
13 necessitates the establishment of a self-insurance fund;

14 WHEREAS, a self-insurance program will succeed only if
15 said self-insurance funds are funded in an actuarially sound
16 manner;

17 WHEREAS, the City of Fort Wayne has previously engaged
18 the services of an actuarial consultant to recommend appropriate
19 funding levels for such self-insurance funds;

20 WHEREAS, the City of Fort Wayne, City Controller has
21 recommended that initially said self-insurance program be limited
22 to general liability and auto liability claims;

23 WHEREAS, said actuarial consultant has recommended
24 funding the self-insurance fund at a level of Ninety-Five
25 Thousand Dollars (\$95,000.00) for general liability and Two
26 Hundred Five Thousand Dollars (\$205,000.00) for auto liability;

27 NOW, THEREFORE, BE IT ORDAINED BY THE COMMON COUNCIL OF
28 THE CITY OF FORT WAYNE, INDIANA:

29 SECTION 1. There is hereby established a self-
30 insurance fund for the City of Fort Wayne effective July 14,
31 1989.

32 SECTION 2. The expenditures from such fund shall be
approved by the Board of Public Works in accordance with the
established claim procedures as provided by law. The following

expenditures shall be made from said fund:

1. Approved claims.
2. Administrative costs for self-insurance program.
3. Attorney fees incurred in defending claims including reimbursement to the City General Fund for work done by salaried members of the City Law Department.
4. Actuarial expenses.
5. Any other related expenses recommended by the Insurance Review Committee and approved by the Board of Public Works.

SECTION 3. There shall established an insurance review committee consisting of the City Controller, Corporation Counsel and the Chairman of the Board of Public Works. The Insurance Review Committee shall review and pre-approve any claim submitted to the Board of Public Works for approval of payment.

SECTION 4. The City shall retain the services of an independent actuarial consultant to annually recommend actuarially acceptable funding levels for said self-insurance fund and to review the self-insurance fund with the Common Council. There shall be annually appropriated for each fiscal year that the City of Fort Wayne maintains a self-insurance program to said self-insurance funds an amount not less than the amount recommended by the independent actuarial consultant.

SECTION 5. Any appropriation made to establish and maintain said fund shall revert to the fund only, unless a statute provides otherwise.

SECTION 6. That in addition to the amount placed in the self-insurance fund as recommended by the independent actuarial consultant pursuant to Section 4 of this ordinance, there shall be an additional sum deposited into the fund equal to the difference between the reasonable estimate of the current year's premium quote for each insurance line that is being self-insured and the recommended self-insurance funding level for that line.

SECTION 7. That self-insurance be implemented for automobile liability claims against the City of Fort Wayne.

SECTION 8. This Ordinance shall be in full force and effect from and after its passage by the Common Council and signature by the Mayor.

Thomas C. Henry
Councilmember

BILL NO. G-89-06- 34
As Amended
As Amended

GENERAL ORDINANCE NO. S- _____

AN ORDINANCE establishing a self-insurance fund with the City of Fort Wayne, Indiana.

WHEREAS, the Indiana General Assembly has recodified and revised the laws pertaining to local government units; and

WHEREAS, Indiana Code 36-1-8-6 provides that the city legislative body may establish a program of self-insurance and establish funds necessary to operate a self-insurance program;

WHEREAS, the City Controller has recommended the establishment of a modified self-insurance program which necessitates the establishment of a self-insurance fund;

WHEREAS, a self-insurance program will succeed only if said self-insurance funds are funded in an actuarially sound manner;

WHEREAS, the City of Fort Wayne has previously engaged the services of an actuarial consultant to recommend appropriate funding levels for such self-insurance funds;

WHEREAS, the City of Fort Wayne, City Controller has recommended that initially said self-insurance program be limited to general liability and auto liability claims;

WHEREAS, said actuarial consultant has recommended funding the self-insurance fund at a level of Ninety-Five Thousand Dollars (\$95,000.00) for general liability and Two Hundred Five Thousand Dollars (\$205,000.00) for auto liability;

NOW, THEREFORE, BE IT ORDAINED BY THE COMMON COUNCIL OF THE CITY OF FORT WAYNE, INDIANA:

SECTION 1. There is hereby established a self-insurance fund for the City of Fort Wayne effective July 14, 1989.

1 SECTION 2. The expenditures from such fund shall be
2 approved by the Board of Public Works in accordance with the
3 established claim procedures as provided by law. The
4 following expenditures shall be made from said fund:

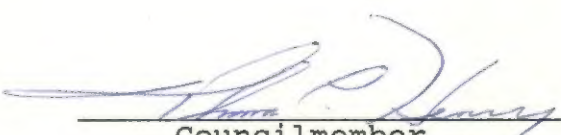
- 5 1. Approved claims.
- 6 2. Administrative costs for self-insurance program.
- 7 3. Attorney fees incurred in defending claims including
8 reimbursement to the City General Fund for work done by
9 salaried members of the City Law Department.
- 10 4. Actuarial expenses.
- 11 5. Any other related expenses recommended by the Insurance
12 Review Committee and approved by the Board of Public
13 Works.

14 SECTION 3. There shall established an insurance review
15 committee consisting of the City Controller, Corporation
16 Counsel and the Chairman of the Board of Public Works. The
17 Insurance Review Committee shall review and pre-approve any
18 claim submitted to the Board of Public Works for approval of
19 payment.

20 SECTION 4. The City shall retain the services of an
21 independent actuarial consultant to annually recommend
22 actuarially acceptable funding levels for said self-insurance
23 fund. There shall be annually appropriated for each fiscal
24 year that the City of Fort Wayne maintains a self-insurance
25 program to said self-insurance funds an amount not less than
26 the amount recommended by the independent actuarial
27 consultant.

28 SECTION 5. Any appropriation made to establish and
29 maintain said fund shall revert to the fund only, unless a
30 statute provides otherwise.

31 SECTION 6. This Ordinance shall be in full force and
32 effect from and after its passage by the Common Council and
signature by the Mayor.


Councilmember

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APPROVED AS TO FORM
AND LEGALITY

J. Timothy McCaulay
J. Timothy McCaulay, City Attorney

Read the first time in full and on motion by Nancy, seconded by Salvino, and duly adopted, read the second time by title and referred to the Committee on Finance (and the City Plan Commission for recommendation), and Public Hearing to be held after due legal notice, at the Council Conference Room 128, City-County Building, Fort Wayne, Indiana, on _____, the _____, day of _____, 19____, at _____ o'clock _____ M., E.S.T.

DATED: 6-27-89

Sandra E. Kennedy
SANDRA E. KENNEDY, CITY CLERK

Read the third time in full and on motion by GiaQuinta, seconded by Salvino, and duly adopted, placed on its passage. PASSED ~~Lost~~ by the following vote:

	AYES	NAYS	ABSTAINED	ABSENT
TOTAL VOTES	<u>9</u>	<u>0</u>		
BRADBURY	<u>✓</u>			
BURNS	<u>✓</u>			
EDMONDS GIAQUINTA	<u>✓</u>	<u>—</u>	<u>—</u>	<u>—</u>
HENRY	<u>✓</u>			
LONG	<u>✓</u>			
REDD	<u>✓</u>			
SCHMIDT	<u>✓</u>			
SEDER				
TALARICO	<u>✓</u>			

DATED: 7-18-89

Sandra E. Kennedy
SANDRA E. KENNEDY, CITY CLERK

Passed and adopted by the Common Council of the City of Fort Wayne, Indiana, as (ANNEXATION) (APPROPRIATION) (GENERAL)

(SPECIAL) (ZONING MAP) ORDINANCE RESOLUTION NO. 2-18-89
on the 11th day of July, 1989,

ATTEST
Sandra E. Kennedy
SANDRA E. KENNEDY, CITY CLERK

SEAL
Charles S. Reed
PRESIDING OFFICER

Presented by me to the Mayor of the City of Fort Wayne, Indiana, on the 12th day of July, 1989, at the hour of 1:30 o'clock P. M., E.S.T.

Sandra E. Kennedy
SANDRA E. KENNEDY, CITY CLERK

Approved and signed by me this 18th day of July, 1989, at the hour of 3:30 o'clock P. M., E.S.T.

PAUL HELMKE
PAUL HELMKE, MAYOR

BILL NO. G-89-06-34 *(as amended) (as amended)*
Committee of the Whole
REPORT OF THE COMMITTEE ON ~~FINANCE~~

MARK E. GIAQUINTA, CHAIRMAN
THOMAS C. HENRY, VICE CHAIRMAN
BRADBURY, SCHMIDT,

Committee of the Whole

WE, YOUR COMMITTEE ON FINANCE TO WHOM WAS

REFERRED AN (ORDINANCE) (~~RESOLUTION~~) establishing a self-insurance fund with the City of Fort Wayne, Indiana

HAVE HAD SAID (ORDINANCE) (~~RESOLUTION~~) UNDER CONSIDERATION
AND BEG LEAVE TO REPORT BACK TO THE COMMON COUNCIL THAT SAID
(ORDINANCE) (~~RESOLUTION~~)

DO PASS

DO NOT PASS

ABSTAIN

NO REC

Mark E. Giaquinta

Thomas C. Henry

James H. Bradbury

William J. Schmidt

Samuel J. Talavera

Clara A. Long

Charles B. Ruhl

Clitus R. Edwards

DATED: *7-11-89*

Sandra E. Kennedy
City Clerk

Sec. 4 -

AMENDMENTS TO G-89-06-34

THAT THERE BE ADDED THE FOLLOWING SECTIONS:

SECTION 6/ THAT ANY SAVINGS GENERATED BY THE USE OF SELF INSURANCE SHALL BE
ANNUALLY PLACED INOT A SPECIAL NON-REVERTING FUND, ~~UNTIL THE CITY'S INDEPENDENT~~
~~ACTUARIAL ADVISOR ADVISES THE CITY THAT IT MAY FREE ITSELF FROM THAT ANNUAL DEDICATION~~
~~OF MONIES INTO THAT FUND.~~

SECTION 7. THAT SELF INSURANCE BE IMPLEMENTED FOR AUTOMOBILE LIABLITY CLAIMS AGAINST
THE CITY OF FORT WAYNE.

(SECTION 6 of ORDINACE BECOMES NEW SECTION 8).

Section 6. That in addition to
the amount placed in the self insurance
fund ^{or} recommended by the independent
actuarial consultant pursuant to
Section 4. of this ordinance, there
shall be an additional sum deposited
into ~~said~~ ^{the} fund equal to ^{the} difference
between ^{the reasonable estimate of the} ~~the~~ current year's premium
quote for each insurance line ^{that is being} self-insured
and the recommended self insurance ^{time} funding
level for that ^{line} line.

CITY OF FORT WAYNE

Insurance Proposal

July, 1989

Submitted By

William G. Niezer, President
and

Steven W. Konkle
Vice President, Marketing

O'ROURKE, ANDREWS & MARONEY, INC.

(219) 432-3400

CITY OF FORT WAYNE

OVERVIEW

We make this renewal presentation with the understanding that the Helmke administration wishes to self insure more of the City's risk than is currently the case. As will be explained, the term "self insurance" can be used to describe several different programs and therefore the term has no absolute meaning.

It is proper, we believe, to assume that the Indiana laws will hold up in court and we will assume that the projected loss levels of the Stergiou report are valid. We ask that you keep in mind the difference between insurance premium and insurance expense. It is quite simple to reduce insurance premium by self insuring primary losses. The expenses in the self insured layer (losses, loss adjustment expenses, actuarial expenses, legal expenses, and other administrative expenses) must be added to excess layer insurance premium to determine the insurance expense. In other words, as you assume primary losses, premium decreases, but loss and other expenses increase. The higher the retention, the lower the premium expense but the greater your potential loss and other expenses. We know that the City account will generate approximately 400 claims per year, therefore any primary layer self insurance program will present meaningful expenses within the retention(s).

In the following pages I will present various factors when considering self insurance of the three major casualty lines. (General Liability, Automobile Liability, and Workers' Compensation). Since the bulk of your premium is in these lines of insurance, the relative savings for self insuring the expected losses in these other lines does not justify, in our opinion, taking the risk.

O'Rourke, Andrews & Maroney, Inc. has handled the City of Fort Wayne casualty insurance program for many years through several administrations. We have numerous professional marketing, claims and loss control personnel dedicated to the servicing of the City account and, of course, they are all located in the Fort Wayne area.

CITY OF FORT WAYNE

HISTORICAL PREMIUMS AND LOSSES

Included in this section is a display of historical premium and losses as well as the number of losses for each year. This display encompasses General Liability, Automobile and Workers' Compensation insurance.

Please note that a quote on the same basis as last year for the three lines of insurance is \$1,057,635. Therefore a premium display of the last five years for these three lines of insurance is as follows:

1989 Quote	\$1,057,635
1988	1,132,080
1987	1,462,667
1986	1,622,098
1985	990,287
1984	484,727

CITY OF FORT WAYNE
LOSSES VALUED AS OF 5/89

<u>Term</u>	<u>Number Incurred</u>	<u>Amount Incurred</u>	<u>Allocated</u>	<u>Premium</u>
<u>General Liability</u>				
6/14/88-89	35	132,900	283	427,842
6/14/87-88	51	104,972	416	580,685
6/14/86-87	63	255,978	15,456	725,321
6/14/85-86	65	97,664		343,693
6/14/84-85	61	57,247	15,213	156,627
6/14/83-84	49	33,832	4,476	152,807
<u>Auto</u>				
6/14/88-89	35	71,469	217	429,107
6/14/87-88	54	105,648	106	574,994
6/14/86-87	59	50,979	1,676	601,796
6/14/85-86	62	391,891	28,818	379,236
6/14/84-85	61	121,587	555	137,635
6/14/83-84	42	93,517	9,370	142,723
<u>Workers' Compensation</u>				
6/14/88-89	227	100,159	188	275,131
6/14/87-88	305	247,971	6,064	306,988
6/14/86-87	282	132,786	1,878	294,981
6/14/85-86	284	118,255	2,321	267,358
6/14/84-85	279	184,671	1,595	190,465
6/14/83-84	301	307,635	7,208	188,759
TOTALS				
6/14/88-89	297	304,528	688	1,132,080
6/14/87-88	410	458,591	6,586	1,462,667
6/14/86-87	404	439,743	19,010	1,622,098
6/14/85-86	411	607,810	31,139	990,287
6/14/84-85	401	363,505	17,363	484,727
6/14/83-84	392	434,984	21,054	484,289

NOTE: The premiums shown do not include any discounts or additional premiums due to audits or endorsements

CITY OF FORT WAYNE
FACTORS TO BE CONSIDERED

There are two basic types of self insurance programs:

1. Insure the expected losses (working layer) and self insure the excess layer (excess of expected losses).
2. Assume expected losses and buy insurance for excess losses which, by definition, you do not expect to have.

The Indiana law grants the City of Fort Wayne certain immunities that private entities do not have. Specifically, claimants are limited in the amount they may receive from the City due to an accident to \$300,000 per person and the most the City will pay arising out of one occurrence is \$5,000,000. Also, a claim must be filed within 180 days of the accident.

The City's past claims experience indicates that there will be approximately 400 claims per year filed against the City of Fort Wayne in the three major casualty lines (General Liability, Automobile Liability and Workers' Compensation). We also know that Workers' Compensation will account for 50% to 75% of the claim count.

The Stergiou report indicates that the amount of money required to properly fund for losses in each of the three lines is as follows:

General Liability	\$174,875 (without excess)
Automobile Liability	205,000
Workers' Compensation	<u>320,000</u>
TOTAL	\$699,875

It should be noted that these numbers are discounted by anticipated interest income since losses generally are not paid out at the time a claim is made. Also note that if excess General Liability is placed then General Liability losses should be reduced to \$95,000.

CITY OF FORT WAYNE

If we look at each line of insurance we see that they vary by expected claim count and expected payments. Combining the Stergiou report estimates with our expected claims count by line we have the following:

	CLAIMS	LOSSES
General Liability	60	\$174,875 (without excess)
Automobile	55	205,000
Workers' Compensation	285	320,000

We should look also into the nature of each line of insurance. General Liability insurance covers such claims as trip and falls, drowning, overcrowding, and faulty road maintenance. In general, General Liability claims are likely to be single claimant and therefore you do not expect to pay out more than \$300,000 for any one occurrence because of the law. General Liability policies have an annual aggregate limit they will pay.

Automobile Liability insurance covers claims arising out of the ownership, maintenance or use of an automobile. This is the area where the potential for multiple claimants from one occurrence is highest. Also, the City could have an automobile claim outside the State of Indiana, in which case the Indiana law affords no protection. Automobile policies have a limit they will pay per occurrence, but they do not have annual aggregate limits.

Workers' Compensation insurance is the most predictable because the benefit levels are set by the State of Indiana. Also, Workers' Compensation policies have no annual aggregate limit on the Workers' Compensation benefits the policy will pay.

If we look at historical premiums we see that premiums went up dramatically for both the 1985 and the 1986 year. Premiums again went down meaningfully in the years 1987 and 1988. These fluctuations are not directly related to losses, but are more a function of the insurance market which varies with industry loss figures as well as interest rates and foreign currency rates.

CITY OF FORT WAYNE

It can be seen that premium levels for all options this year would offer a premium savings.

The City in recent years has not purchased Excess Liability insurance, but rather has been content with \$1,000,000 limits for Automobile Liability and \$1,000,000 per occurrence/\$2,000,000 annual aggregate for General Liability. The City was satisfied with these limits, partly because of the Indiana law, but also because Excess Liability premium was, relatively speaking, just as high as the primary premium. Therefore, the insurance was not affordable. When considering top side limits, the question of how much is enough must be answered. There really is no way to know the answer in advance, but only in hindsight. The City of Ft. Wayne has never had a single claim which exceeds \$500,000. Also, the Stergiou report supports the notion that such a loss is unlikely. Should such a loss occur, there would in all likelihood, be only one such loss in a given year and that loss would probably be either a Workers' Compensation loss or an Automobile Liability loss. When Workers' Compensation is written on a guaranteed cost or retrospective rating plan there is no limit to the amount of losses the policy will pay (this is not true of an Excess Workers' Compensation policy). Therefore, Automobile Liability is properly the area of most concern when discussing excess limits. Because of the way claims payments for large losses tend to be made over a period of years it is almost certain that the City would have one budget year to plan for a known catastrophic loss should such a loss happen. A prudently established loss fund would pay expected losses assumed, and would be available in the event a loss exceeds available insurance.

I would like to finally discuss historical primary insurance premium with excess insurance pricing. In the tight years of 1985 and 1986 a rule of thumb for \$1,000,000 limits in excess of \$1,000,000 General Liability and Automobile Liability was 50% of the primary \$1,000,000. In today's more competitive market such a placement would cost generally 35% of primary premium. Keeping in mind that today's primary premium is much less than before it can be seen that excess premium, relatively speaking, was more expensive in 1985 and 1986 than is the case today. The point here is that

CITY OF FORT WAYNE

the argument that assuming primary losses and insuring excess will add stability to your insurance expense does not hold up. Excess premiums have tended to fluctuate more than primary premium for heavy casualty risks which the City certainly is.

CITY OF FORT WAYNE

PROPOSED PROGRAM

After reviewing a number of self insurance options the administration has chosen an insurance program. The option chosen is a very aggressive move toward self insurance but it is not irresponsible. The following factors support this decision:

1. The Stergiou report
2. The number of expected claims by line of insurance
3. The Indiana law
4. The out of state automobile exposure
5. The premium savings versus risk assumed
6. Positioning the City to go further into self insurance at a future date

Assumption of the General Liability losses in total is prudent risk taking. You expect losses to be funded by \$174,875 and related loss control and loss adjustment expenses to be \$18,600. The best that can be done in the insurance market for a \$500,000 limit with a \$500,000 annual aggregate is \$307,000 for a no deductible program. The City has never paid out more than \$275,000 in claims expenses for one year. Also, General Liability losses can be most easily controlled by an aggressive loss control program. Finally, General Liability accidents are the most likely to have single claimants in which case the Indiana Law limitation offers protection.

Automobile liability losses are the most difficult to loss control. Also, an out of state accident does not afford the City the protection of the Indiana law. Even though the City is only buying \$500,000 limits, it should be noted that the limit applies to each accident and there is no annual aggregate limitation.

Workers' Compensation can be improved with an aggressive loss control program. The Workers' Compensation policy has no policy limits, therefore the policy provides unlimited protection for accidents covered by the Workers' Compensation law. By choosing a Retrospectively rated plan, the City will be able to assign Workers' Compensation insurance costs to the

CITY OF FORT WAYNE

various departments according to losses. Also, the City will have none of the administrative costs of the Workers' Compensation losses. The maximum of the Retrospective Rating plan (Retro) is higher than the standard premium but it is lower than the aggregate limit of an Excess Workers' Compensation policy. Also, there is a possibility of a return premium. Should loss experience not go well, you would owe the insurance company money six months after the expiration of the policy which would be in January 1991.

By choosing a Retrospective plan you avoid the claims administration expense of this line of insurance. Also, you are self insuring with a lower aggregate limit than is offered by Excess Workers' Compensation policies. Finally, you can easily assign your loss costs to the departments in direct proportion to their losses.

CITY OF FORT WAYNE

INSURANCE COSTS

I. SELF INSURED GENERAL LIABILITY

Losses	174,875
Loss Adjustment Expense	15,000
Safety Engineering	<u>3,600</u>
	\$193,475

II. AUTOMOBILE LIABILITY BASED ON 612 UNITS

\$500,000 Liability Limit	\$300,000
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III. WORKERS' COMPENSATION BASED ON PAYROLL OF \$21,668,101

Pay in	\$332,700
Maximum	\$465,780
\$100,000 of losses	\$252,431
\$200,000 of losses	\$376,191
\$272,000 of losses	\$465,298 (maximum)
\$300,000 of losses	\$499,951*
*Limited by maximum of \$465,780	

IV TOTAL

Pay in at inception	\$632,700 (Auto & W.C.)
At Retro maximum	\$765,780 plus General liability losses and expenses.
At Retro with \$100,000 in Workers' Compensation losses	\$552,431 G.L. losses and expenses
Pay in at inception	\$632,700
Insurance costs at Retro maximum	\$765,780 General Liability losses and expenses.

CITY OF FORT WAYNE

COMPARISONS

A. Last year

G.L.	\$1,000,000/2,000,000
A.L.	\$1,000,000
W.C.	Statutory
Premium	\$1,132,000

B. Renewal Quote

Same as expiring

Premium	\$1,057,635
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C. Self Insured General Liability

Option I

G.L.	Self insured
A.L.	\$500,000
W.C.	Statutory (Retro)
Pay in at inception	\$632,700

Insurance Costs	with \$100,000 in W.C. losses, the costs are \$552,431 plus General Liability losses and related expenses. At maximum, the costs are \$765,780 plus General Liability losses and related expenses.
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DIGEST SHEET

TITLE OF ORDINANCE GENERAL ORDINANCE

9-89-06-34

DEPARTMENT REQUESTING ORDINANCE CONTROLLER

*as amended
as amended*

SYNOPSIS OF ORDINANCE Ordinance ESTABLISHING A SELF-INSURANCE FUND

NECESSARY TO OPERATE A MODIFIED SELF-INSURANCE PROGRAM FOR

GENERAL LIABILITY AND AUTO LIABILITY CLAIMS.

EFFECT OF PASSAGE Establishes a self-insurance fund and a modified self-

insurance program for general liability and auto liability for the
City of Fort Wayne

EFFECT OF NON-PASSAGE Total insurance coverage premium funded

MONEY INVOLVED (DIRECT COSTS, EXPENDITURES, SAVINGS) _____

ASSIGNED TO COMMITTEE (PRESIDENT) _____